Bachelor's Degrees on the Rise

- **11%** of persons 25 years and older held a bachelor's degree or higher in the U.S. in 1970.
- **28%** of persons 25 years and older held a bachelor's degree or higher in the U.S. in 2006.

Source: NCES Mini-Digest of Education Statistics 2006

More than Half

- In 2006, **57.4%** of bachelor's degrees were awarded to females.

Source: NCES Mini-Digest of Education Statistics 2006

IOWA STUDENT LOAN℠ Insights
News and information for financial aid professionals.

The **Research Edition** of ***Insights*** is produced by Iowa Student Loan, Ashford II Building, 6775 Vista Drive, West Des Moines, IA 50266. Phone: (800) 243-7552.

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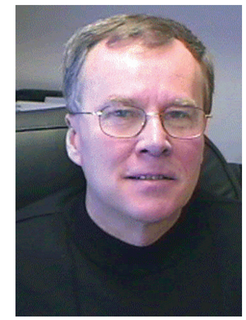
IOWA STUDENT LOAN℠ Insights

News and information for financial aid professionals.
Fall 2007

Dear Colleagues:



John Parker
Director, Community Services and Educational Research

As you know, the Iowa Student Loan *Insights* newsletter provides news and information about our services and products, especially as they pertain to financial aid professionals. Building on that publication, this is the first in a series of special issues focusing on research. It will be sent to you three times each year and will feature information and articles on topics that are relevant to your work as financial aid professionals.

- **Research Findings** – Each edition will feature a recap of the results from research projects we have conducted on students who attend and borrow in Iowa.
- **Research Briefs** – We know that you don't always have time to read the wealth of research information that comes across your desk, so we will provide summaries of articles that may be of interest to you.
- **Tools and Resources** – Occasionally, you may wish to investigate a variety of topics on your own. With that in mind, we will try to point you toward some helpful research tools and resources.
- **Quick Facts** – We will provide several statistics in each edition; some that are related to your work and some just for fun.

It is our goal to offer information and tools that will assist you in your daily work. Therefore, please feel free to provide us with feedback and suggestions regarding the content for future editions.

Sincerely,

John Parker
Director,
Community Services and
Educational Research

Inside this Issue:

How Much Debt is Too Much?

Written by Michael Hegarty, Iowa Student Loan Research Analyst

When borrowing for college, it is important for all parties to understand the full cost of taking out loans. More importantly, students need to understand how much impact their borrowing will have on their future earnings. A college degree is an investment in the future. Students need to know if they can afford to invest in the degree they want.

In their paper *How Much Debt is Too Much? Defining Benchmarks for Manageable Student Debt* (http://www.collegeboard.com/research/pdf/06-0869.DebtPpr060420.pdf), Sandy Baum and Saul Schwartz look at the traditional "8% rule" to determine its utility in defining the debt burden placed on college loan borrowers. They recommend a system benchmarked on discretionary income level.

This article lays out a simple technique, loosely based on Baum and Schwartz, that gives students an idea if the amount they plan to borrow is too much. This approach of estimating income based on expected debt can give the student an understanding of the income needed to pay off their loans.

To begin, an approximation of the total student loan debt payment after graduation must be calculated. The next piece needed is debt burden. A common method for calculating debt burden is to use the proportion of income in excess of the poverty line that needs to be dedicated to loan repayment. For 2007, the U.S. Department of Health and Human Services poverty line is $10,210 for a household of one. Each additional member of the household increases that line by $3,480.

Average Baccalaureate Student			
Debt Type	Balance	Rate	Payment
Title IV	$18,000	6.80%	$137
Private	$3,000	9.00%	$27
Total	$21,000	7.11%	$164

Average Baccalaureate Student			
Burden	6.0%	8.0%	12.0%
Payments	$1,973	$1,973	$1,973
Needed	$32,879	$24,659	$16,439
Poverty Line	$10,210	$10,210	$10,210
Income Needed	$43,089	$34,869	$26,649

The last piece of the equation is "what level of payment is a burden?" There is no expert agreement on how much burden is acceptable, but 6% to 12% (depending on income) is frequently cited. Baum and Schwartz propose benchmarks for the maximum ratio that range from 7% to 18%.

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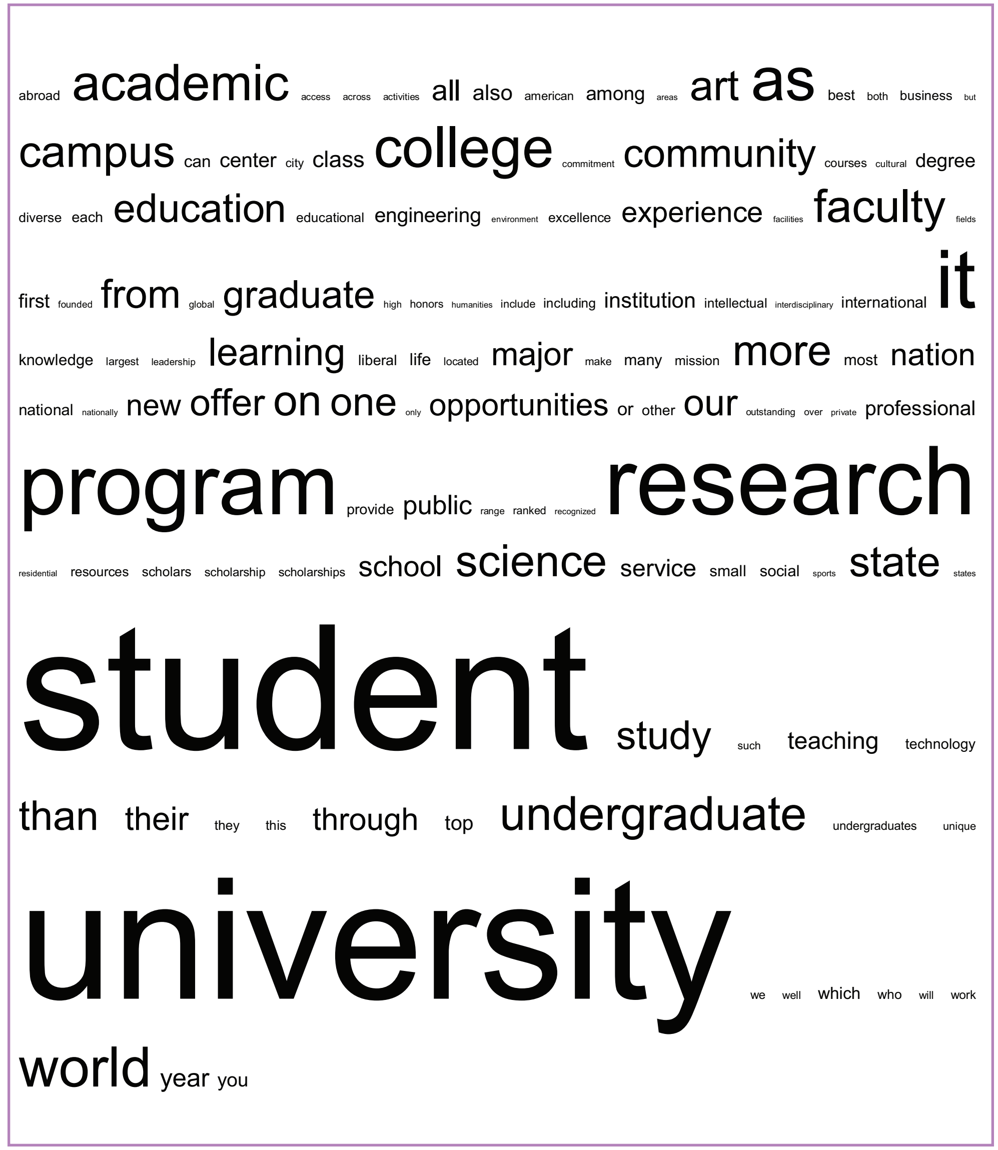
Mission Statement Word Cloud of
Top National Universities listed in *U.S. News & World Report*

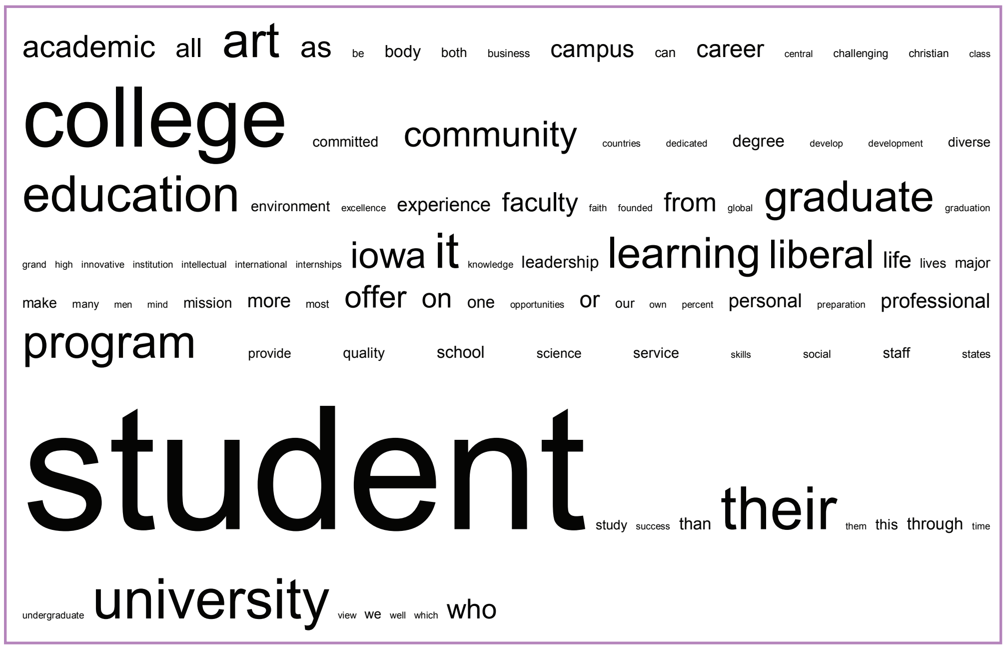


Mission Statement Word Clouds

A word cloud is a visual frequency chart. The font size of a given word is directly related to the frequency of the word in the text being analyzed. Although people tend to focus on the large (more frequent) words, looking at the small words and identifying missing words is equally important.

Mission statements shown here were collected from both Iowa colleges and universities and colleges and universities listed in *U.S. News & World Report* "America's Best Colleges 2008." (http://colleges.usnews.rankingsandreviews.com/usnews/edu/college/rankings/rankindex_brief.php).

Mission Statement Word Cloud of Iowa Colleges and Universities *



* There were 29 Iowa schools that posted mission statements. College names were removed from the word cloud.

This means we can estimate a higher and lower limit on income needed to meet payments on student loan debt. How much income is needed at various assumed burden levels? For an average student, this analysis might look like the table on the previous page.

For an education major hoping to teach in rural Iowa, $43,000 (the income needed for a 6% burden) might be an income higher than they are able to achieve in their first year; but an 8% burden at $35,000 may be achievable if a summer job is procured. For others, like engineering and accounting majors, $43,000 should be an achievable starting salary in major Iowa cities.

This type of analysis gives students, parents and financial aid professionals another tool to help them make borrowing decisions. It answers the question, "Can I earn enough to pay for my investment in education?" It helps students understand what the long-term impact will be from their borrowing decisions today.

We have created a loan burden calculator based on this article that is available for download on the Iowa Student Loan Web site. Visit http://www.studentloan.org/financial-aid-officers and click on calculators.

Quick Facts

College Student Gamers

- **70%** of college students play video or online games at least once in a while.
- **65%** of college students are regular or occasional game players.
- **Half of college student gamers** agreed that gaming keeps them from studying; in addition, **about 10%** admitted that their main motivation for playing games was to avoid studying.

Source: *Pew Internet & American Life Project*

ACE Brief –

Who Borrows Private Loans

American Council on Education, August 2007

One of the biggest changes in the demographic profile of private loan borrowers in recent years is the share of undergraduates borrowing private loans. In 1995-1996, less than 1% of all undergraduates borrowed private loans; in 2003-2004, 5% did. Undergraduates accounted for approximately 80% of all private loan borrowers in 2003-2004.

The "typical" private loan borrower at a **public or private nonprofit four-year institution** is:

- pursuing a bachelor's degree in business, humanities or social sciences.
- attending full time.
- classified as a dependent with an average age of 23.5 (3.1 years below the average of others who do not borrow private loans).
- Caucasian.
- equally likely to be male or female.

The "typical" private loan borrower at a **for-profit institution** is:

- pursuing an associate's degree in computer and information science or vocational/technical fields.
- attending full time.
- classified as a dependent with an average age of 23.5 (3.1 years below the average of others who do not borrow private loans).
- Hispanic or Asian.
- a male.

Did you know?

- The "typical" private loan borrower at a public or private nonprofit four-year institution has an annual family income between $50,000 and $100,000 at public schools and $30,000 and $100,000 at private schools.
- The "typical" private loan borrower at a for-profit institution has an annual family income under $50,000.

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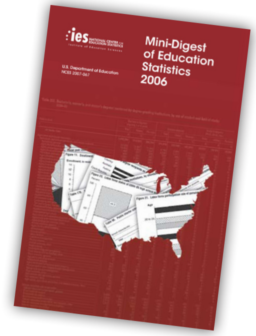
Mini-Digest of 2006 Education Statistics



The National Center for Education Statistics (NCES) is congressionally mandated to collect, analyze and report educational statistics on the condition of education in the United States. Their annual report is called the *Digest of Education Statistic*, and it is a highly cited reference in education literature. The NCES Web site has electronic versions of the *Digest* from 1995 through 2006 (the most recent edition) at http://nces.ed.gov/programs/digest/.

The full version of the *Digest* can be daunting to read; a familiarity with the tables and their location is highly recommended. To facilitate the use of the data in the *Digest*, NCES produces the *Mini-Digest of Education Statistics*. The 2006 version of the *Mini-Digest* is available at http://nces.ed.gov/pubs2007/2007067.pdf.

Financial Aid Facts

In 2003-2004:

- **76%** of full-time undergraduates at both public and private colleges received some form of financial aid; of those receiving aid:
  - 82% received federal aid.
  - 41% received institutional aid.
  - 30% received state aid.
  - 30% received aid from other sources.

Financial Aid Statistics

- **71%** of full-time undergraduates at public colleges received some form of financial aid in 2003-2004.
- **89%** of full-time undergraduates at private nonprofit colleges received some form of financial aid in 2003-2004.

Source: NCES Mini-Digest of Education Statistics 2006

Helping Families Finance College: Improved Student Loan Disclosures and Counseling – Consumers Union, July 2007

Families are often confused by the process of paying for college and end up making poor decisions regarding college funding. Instead of just reporting about the confusion, the publishers of *Consumer Reports* magazine completed an original two-phase qualitative market research study with over 130 students and parents.

The report presents findings and recommendations in several areas. The basic conclusions of the report include the following:

- Students frequently do not maximize the availability of federal loan dollars primarily due to a lack of understanding of availability and eligibility requirements.
- Parents and students are confused about the difference between federal and private loans, and the financial obligations related to each.
- Borrowers are confused about finance-related concepts such as future financial obligation (monthly payments and the cost of the loan in terms of interest paid), interest rates associated with each type of loan (including variable versus fixed interest), the timing of repayment, prepayment penalties and interest capitalization.
- Credit cards continue to be seen as a viable college funding mechanism because borrowers do not always consider utilization of credit cards as a loan, and knowledge of the higher interest rate does not seem to be evident.

The report presents important observations that help identify the sources of the confusion and poor decisions. It reveals that: parents do not understand enough about college funding early in the process; terminology and formats used in award letters are difficult to understand; borrowers do not have a trusted source for information; and there is a lack of an "apples-to-apples" metric similar to APR for comparing borrower benefits and discounts offered by lenders. Also, the report mentions that borrowers do not reevaluate their borrowing options year-to-year and tend to go with the options they used initially.

The report makes recommendations to address the concerns identified. In addition to their recommendations, the report provides prototype examples of a brochure on general financing principles, a standardized financial aid award letter, a loan disclosure in "plain English" and a complete, customized student aid report. These examples present viable methods for improving communication to borrowers with the goal of promoting good decisions on college funding.

Source: http://www.consumersunion.org/pdf/CU-College.pdf

In general, private loan borrowers are more likely to have filled out a FAFSA (83% to 98% were filers across the categories) and to receive grant aid (approximately $1,600 more on average than others). However, across nearly all groups, private loan borrowers needed at least an extra $2,000 for average total educational and living costs (net grant aid).

The authors were surprised by the percentage of borrowers who are using private loans as the sole source of loan funds and not as supplements to federal loans. In 2003-2004, 56% of private loan borrowers utilized their maximum Stafford amount and 21% borrowed some federal money, but 23% of private loan borrowers did not borrow any federal dollars. This group mostly consisted of independent students and upper income dependent students.

Source: http://www.acenet.edu/AM/Template.cfm?Template=/CM/ContentDisplay.cfm&ContentID=23410&FusePreview=True&WebsiteKey=31cadfd9-b130-44b4-af2e-6603cbcc422b

Quick Facts

Changes in Cost of Attendance (COA)

A difference in COA from one year to the next can have a disproportionate affect on the amount of unmet need when aid amounts are held constant. The table below shows how a change of 25% in COA is magnified into a larger discrepancy in COA not met by aid (34%) and unmet need (81%).

	Time 1	Time 2	Δ
COA	$12,000	$15,000	25%
Aid	$3,300	$3,300	
COA Not Met by Aid	$8,700	$11,700	34%
EFC	$5,000	$5,000	
Unmet Need	$3,700	$6,700	81%
PLP/PLUS/Private Eligibility	$8,700	$11,700	

Student and Parent Student Loan Indebtedness Levels in Iowa

By Marc Hendel, Iowa Student Loan Senior Research Analyst

In recent years, data has shown Iowa undergraduate student indebtedness has grown to be among the largest in the nation. The Iowa Student Loan research team has determined the key statistically significant reasons for this finding, which clearly identify increasing college costs, below average family income, high college participation rates and relative static sources of other financial aid as probable causes.

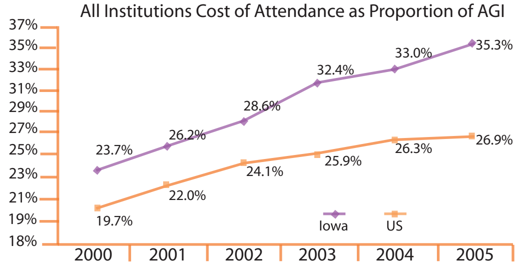
Rapid increase in the cost of attendance.

The cost of attendance (COA) for four-year public schools in Iowa has increased much faster than the national average – 97.8% between 1994 and 2004, and 23.4% between 2002 and 2004. The U.S. average increased 69.2% from 1994 to 2004, and 13% from 2002 to 2004.[1] The Higher Education Price Index (HEPI) is a measure of inflation on a basket of goods related to higher education. For comparison, the HEPI increased only 42% between 1994 and 2004.[2]

Less family income for Iowans than the national average.

Family incomes in Iowa trail the national average by approximately $7,000 per year, meaning less family resources (i.e., EFC) are available for college education expenses. Iowa has a significantly lower adjusted gross income (AGI) than the nation.

All Institutions Cost of Attendance as Proportion of AGI



Using 2004 AGI, Iowa ranked 36th in the nation with an average AGI of $43,478. The U.S. average AGI in 2004 was $50,680.[3]

The U.S. experienced growth (in 2005 dollars) in AGI for six of the eight years between 1998 and 2005;[4] however, AGI in Iowa fell short of that national growth in five of those years. Combining COA and the smaller increases in AGI in Iowa magnifies the differences when looking at COA as a proportion of AGI; thus the burden on Iowa students is consistently higher and the gap is widening slightly.

Between 2000 and 2004, the average EFC in Iowa has shown a 7.7% decrease in constant 2004 dollars while the average U.S. EFC has shown no real change in constant 2004 dollars.[5]

COA ↑ and EFC ↓ = Need ↑

Based on increasing COA and decreasing EFC, the average need in Iowa is higher than the U.S. average.

Higher levels of college participation in Iowa than the national average.

More residents in Iowa participate in postsecondary education than any other state in the country. Combining data from the 2003 Integrated Postsecondary Education Data System (IPEDS) with population figures from the U.S. Census Bureau,[6] it can be shown that Iowa ranks first in the nation when computing the proportion of the population classified as first-time, degree-seeking students in any state, resulting in more students with higher need attending college in Iowa.

Decreased purchasing power of state and federal student aid programs.

The purchasing power of the Pell Grant has declined significantly. When introduced, Pell Grants covered 75% of the average published COA. The proportion of the average published COA at a public four-year college or university that could be met by a Pell Grant declined from 42% in 2001-2002 to 33% in 2005-2006.[7]

The federal loan lifetime maximum for dependent undergraduates has been set at $23,000 since 1992. If the loan limit had increased with inflation, it would now be at $37,759. The total federal loan dollars available for a dependent undergraduate student for four years has been $17,125 since 1993, and increased to $19,000 in 2007. If this limit had increased with inflation since 1993 it would now be $27,331 in today's dollars, which leaves more than an $8,000 gap.

Iowa has been in the top 20 states in state dollars per student (receiving state grants) from 2002-2004, but Iowa's rank has been declining. The proportion of students receiving state aid in Iowa is very low compared to other states. Although the "per student" amount for those receiving it is reasonable, few students in Iowa are receiving the aid.[8]

State Aid Proportion	2002	2003	2004
U.S. Minimum	1.2%	2.4%	0.7%
U.S. Median	23.5%	22.8%	23.4%
U.S. Maximum	69.8%	66.6%	68.4%
U.S. Mean	26.6%	25.6%	26.1%
IA Mean	18.7%	16.9%	15.3%
IA Rank	39	39	43

To summarize, our research is consistent with other recent national findings that show the importance of college cost pressures in creating demand for more loans, especially for middle-income families.

[1] ICSAC Information Digest of Postsecondary Education in Iowa VI-4, 2003 and 2004
[2] http://www.commonfund.org/Templates/Generic/RESOURCE_REQUEST/target.pdf?RES_GUID=BA6F90EC-2BE6-4BF4-9D19-D68AE8367B1B
[3] http://www.irs.gov/taxstats/indtaxstatsarticle/0,,id=103106,00.html
[4] http://www.irs.gov/taxstats/article/0,,id=171535,00.html
[5] Online DAS-T Online Version 5.0 using NPSAS:04 data and NPSAS:00
[6] http://www.census.gov/popest/datasets.html and IPEDS 2003
[7] College Board 2006 Trends in Student Aid: Pell Grants (http://www.collegeboard.com/prod_downloads/press/cost06/trends_aid_06.pdf)
[8] IPEDS DCT Online Tool – 2002, 2003 and 2004 data